ESO 1252

FARM TRANSITION UNDER FINANCIAL STRESS:

AN OHIO CASE STUDY

A Preliminary Report on the Farms and Farmers Who Ceased Farming in 1984-1985 for Financial Reasons

by

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February, 1986

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Financial stress among farmers has become a topic of considerable concern in recent years. A number of surveys and analyses have been reported, all showing a marked increase in the share of farmers experiencing substantial financial difficulties, technically insolvent, or facing foreclosure or other involuntary liquidation action as a result of inability to service debt obligations (see, for example, Johnson et al., Lines and Pelly, Benjamin).

A logical outcome of mounting financial stress is concern about farmers being forced out of business as a result of financial pressure. Also of considerable interest are the impacts on the rural economy and local communities that result from the termination of farming operations by financially stressed operators. Further, the transition of farmers out of agriculture has implications for the evolving structure of the farm sector. The issue of the future structure of American agriculture has received attention from both the profession and the public at large at least since the "Who Will Control U.S. Agriculture?" materials were published in 1972 (Guither).

The potential for financial stress to affect individual farmers, rural communities, and the structure of agriculture is obvious even to the casual observer. The actual impacts, however, are less clear. It seems reasonable to assume that there is a functional relationship between financial stress and declining farm numbers, and recent studies such as those by Heffernan and Heffernan in Missouri have shown that the most prevalent reason for leaving farming in the past few years has been financial difficulty (Southern Rural Development Center). But, relatively little specific evidence has yet been brought to bear that helps clarify the empirical relationships between farm financial stress, farm operator transition, residential status, and the emerging structure of the farming industries.

Some evidence has been compiled, which provides a framework for further investigation. In a study of Iowa farmers who left farming during 1984 for financial reasons, Otto found that a majority of such farmers remained in their original community, a plurality found work not directly related to agriculture at the same time that unemployment was relatively high, and the most frequent disposition of the farm assets was conveyance to creditors rather than transfer through sale or rental to another farm operator. He also reported that these farmers tended to exhibit characteristics similar to farmers shown in other studies to experience high levels of financial stress: somewhat younger than average and operating larger than average farms.

Purpose and Procedures

The purposes of our exploratory investigation were two-fold: (1) to gain insights about the persons and their farming operations who have quit farming in Ohio for financial reasons, similar to that obtained by Otto in Iowa, and (2) to add to what has been conjectured and learned in studies such as those by Otto and the Heffernans regarding the implications of financial stress on the future structure of the farming industries. From the results, we hope to identify more definitive hypotheses concerning the impacts of financial stress on both farm people and farm businesses in Ohio and thus gain insight into related problems and potential public policy responses, and to stimulate more comprehensive research. We also hope that, when combined with what has been learned elsewhere, these results will contribute to an improved understanding of the interrelationships between severe financial duress among farm operators and structural or organizational change in U.S. agriculture.

To investigate the impact of financial crisis on farm businesses, farm operators, and their families, a survey was conducted to gather information on the current status of financially stricken farmers. With the whereabouts of those farm operators who left farming due to financial difficulties uncertain, each county agricultural extension agent in Ohio was requested to provide information on such individuals who had operated farms in the county. Methodologically, this approach is similar to that employed by Otto.

The survey design encompassed several topical questions regarding individual farm operators, farming operations and related information. It also accounted for those specific farming operations which had more than one principal operator. A principal operator was defined as the person(s) who had a major decision role in managing the farm business.

The questions on farm operators were designed to provide information on their current employment, family and residence status, educational background and farm experience. The farm entity questions were concerned with the farm operation's size, type and revenue, and asset disposition.

County extension personnel were requested to provide information on five farm operations with which they were most familiar that had ceased business for financial reasons during 1984 and 1985. Although this survey technique may not generate a representative sample of all farmers who quit farming for financial reasons, it provided a viable means of obtaining information on subjects for which there is no single reliable source of identity. Despite the obvious potential for nonrepresentativeness among subjects, it is believed that the reported information will provide empirical insights to questions concerning present and future impacts of the farm financial crisis which could not otherwise be obtained due to the difficulty of identifying subjects for study.

The farm survey was initially reviewed by several agricultural economists and rural sociologists for proper question content and clarity. The revised survey was then field tested by several county extension personnel. After additional revisions, the final farm survey was sent to each county extension office.

Findings

The results of our survey are, in general, reasonably consistent with those reported in Iowa by Otto, and thus tend to suggest some basic premises that might be validated on a regional or even national basis. Further, we obtained responses on questions not reported by Otto, which generate additional insight. The results reported here reflect responses from only about one-third of the counties in Ohio. Because of this, these results should be considered preliminary--we do expect some revisions as more responses become available.

This analysis includes case data provided on 87 different Ohio farms that had ceased operation during 1984 or 1985 for financial reasons. Some of these farms had multiple operators, bringing to 94 the number of principle farm operators studied. These 94 operators represented 50.3 percent of the farm operators who were reported to have quit farming during the two year period; of the remaining 49.7 percent (not included in the subsequent analysis), 29.1 percent left farming because of retirement, 9.7 percent because of health problems and 10.9 percent for miscellaneous, other or unspecified reasons.

In terms of general characteristics, the average age of the subjects studied was reported to be 42 years, compared to 50 years as the average for all farm operators in the state. The average farm size for the operators subjected to this survey was 346 acres of which 57 percent was rented. Comparable averages for the entire state are 177 acres and 41 percent rented. Thus, consistent with both Iowa data on similar operations and with studies measuring the incidence of financial stress among farmers, Ohio farm operators who quit farming for financial reasons tended, on average, to be younger and have operated larger farms.

Other characteristics of the 94 operators in the study who left farming for financial reasons are detailed in Table 1. Selected characteristics of the 87 farms for which operations were terminated for financial reasons are shown in Table 2.

Regarding operator characteristics, there are both expected and unexpected findings. Not surprising, given the relatively young age of these operators, are the high percentages married (74.5%) and with dependent children (76.0%). More surprising was the large share (70.8%) who were full-time farmers with no off-farm employment. By contrast, census data show that less than 35 percent of all farmers in the state are full-time with no off-farm jobs. Only 6.7 percent of the operators in the study had full-time nonfarm jobs while they were farming, as contrasted with census data showing that more than 50 percent of the state's farm operators have principle occupations other than farming. In short, these operators who quit farming due to financial stress tended to be relatively young, full-time family farmers.

Nonetheless, off-farm income was relatively important to these operators. Nearly half (48.5%) had spouses who were employed off the farm

Table 1. Characteristics of Farm Operators Who Quit Farming for Financial Reasons, Ohio, 1984-1985

	Percent of Subjects Studied		Percent of Subjects Studied
Marital Status:		Employment Status of Spouse:	
Married	74.5	Same job as when farming	45.6
Single	9.6	Not employed now, not employed when farming	29.4
Divorced	8.5	Employed now, not when farming	13.2
Separated	2.1	Not employed now, was employed when farming	2.9
Widowed	1.1		
Former Operator Status:		Residential Status:	
Full-time farmer, no off-farm job	70.8	Same house as when farming	48.3
Part-time farmer, part-time off-farm job	22.5	Different house, same community	24.7
Full-time non-farm job, part-time farmer	6.7	Out of county, same state	13.5
		Out of state	6.7
Current Employment Status:		Since Leaving Farming:	
Not related to agriculture	44.2	Serious physical illness	1.1
Agribusiness	15.1	Serious mental illness	7.5
Self-employed	12.8	Drug/alcohol abuse	4.3
Unemployed	9.3	Involvement with County Extension:	
For another farmer	7.0	Active	56.2
Formal Education:		Active only after financial problems	9.0
High school or less	74.7	No involvement	21.4
Post secondary or more	25.3		

prior to termination of farm operations, and the vast majority of these (45.6%) continued working after farming operations ceased.

Interestingly, only 13.2 percent of the subject operators have spouses who began off-farm employment following termination of farming, while nearly 30 percent of the spouses remained outside the workforce. In part, this may be explained by the large number of families with dependent children. But, it also suggests that economic duress associated with farm failure has in many cases not forced a non-employed spouse into the job market.

Since exiting from farming, over 90 percent of the former farm operators have gained employment of some kind--the unemployment rate of 9.3 percent was measurably below the 14.9 percent level reported among similar operators in Iowa (Otto, p. 10). This difference probably reflects the greater economic diversity of Ohio and thus greater nonfarm employment opportunities. It would not appear to be skill-related, given the high proportion who had been full-time farmers prior to leaving the farm and the relatively low level of post-secondary educational attainment among these subjects (25.3%). A majority (57%) are either self-employed or working in jobs not related to agriculture while fewer than 25 percent found agriculture-related employment (15.1% in agribusiness and 7% for other farmers). The farm-agribusiness job outcome was substantially less than the combined total of 38.3 percent reported in Iowa, again undoubtably a reflection of relative economic diversity. However, it does suggest that these former Ohio farm operators may have been less well prepared for their subsequent employment than were their Iowa counterparts.

Nearly half (48.3%) of all former farmers have remained domiciled in the same residence that was occupied while farming. Further, nearly three-fourths remain in the same community. Thus, the incidence of signficant family dislocation as a result of farm failure is appreciably less than would be suggested by the incidence of farm failure. Likewise, the incidence of physical or mental illness and drug or alcohol abuse among these operators who left farming for financial reasons appears to be surprisingly low.

The Ohio results on employment status of spouses and family residence closely parallel findings reported in Iowa (Otto, pp. 9, 10). Comparable data on illness and substance abuse in Iowa were not reported.

Turning to the farm businesses (Table 2), the principle enterprises of farms ceasing operations for financial reasons were about evenly divided between cash grain, dairy, and others. Compared to relative sources of cash receipts among Ohio farms, this appears to be a disproportionately high share of dairy and swine enterprises (32.6% and 15.8%, respectively, of the failed farms compared to 16.0% and 10.9%, respectively of total cash farm receipts in the state), a disproportionately low share of cash grain operations (32.6% compared to 45.3% of Ohio cash farm receipts) and roughly proportional for beef cattle (11.6% vs. 11.0%).

We found these results to be curious as studies such as Lines and Pelly have shown financial stress to be greater in cash grain areas of the state than in the areas where dairy operations predominate. We are reluctant to draw implications from these seemingly inconsistent findings, but one possible explanation may rest on the combination of the relatively young age of failed operators and the relatively high capital requirements of livestock production. Perhaps, the high capital requirements combined with fewer years to accumulate capital exposed some of these operations to excessive financial stress.

Nearly four out of every five of the farm businesses studied (78%) had expanded in some manner during the ten year period beginning in 1976.

Table 2. Characteristics of Farms that Ceased Operation for Financial Reasons, Ohio, 1984-85

	Percent of Farms Studied		Percent of Farms Studied
Principle Enterprise:		Current Operator of Farm's Assets:	
Cash grain	32.6	Another family farm	63.4
Dairy	32.6	Custom farmer	12.7
Swine	15.8	Corporate farm	5.6
Beef cattle	11.6	Unspecified/unknown	18.3
Others	7.4		
		Disposition of Farmland:	
Expanded Farm Operation:		Sold/rented to new farmer	27.5
In 1976-1980	74.0	Held by creditor	26.2
In 1981-1985	52.0	Sold/rented to existing farmer	20.0
In 1976-1985	78.0	Sold to non-farm investor	7.5
Method of Exiting:		Sold/rented to nonfamily corporation	5.0
Sold part of farm assets	40.2	Other/unspecified	13.8
Foreclosed by creditor(s)	19.6		
Sold all farm assets	18.6	Gross Annual Sales Before	
Filed for bankruptcy	13.7	Ceasing Operations:	
Voluntary conveyance to		Less than $40,000	21.5
creditor(s)	7.8	$40,000-$200,000	69.6
		Over $200,000	8.9

Almost all of these (74%) had expanded during the first five years of this period, while only about half (52%) expanded during the latter five years. While comparable data are not available for all farms, our perception is that a higher than average share of subject farms expanded operations, particularly during 1976-1980. The observation that about 50 percent fewer expanded in 1981-1985 than in 1976-1980 seems consistent with the relative levels of economic prosperity in U.S. agriculture between these two periods. Further, it suggests that financial stress was becoming increasingly apparent among these farm operations, thus discouraging further expansion. Significantly, 29.9 percent of the operations were expanded in 1976-1980 through the purchase of additional land whereas only 11.5 percent expanded in this manner in 1981-1985.

Partial liquidation was the single most common method (40.2%) of disposition of farm assets for terminated farming operations. In general, when partial liquidation occurred, the former operator kept the land and sold livestock, facilities and/or machinery (90.2% of those with partial liquidation). Foreclosure by creditors and sale of all farm assets were nearly equal as alternative means of farm disposal (19.6% and 18.6%, respectively), while 13.7 percent filed for bankruptcy. Combining foreclosure, bankruptcy and voluntary conveyance of assets to lenders, just slightly more than two of every five operations (41.1%) appear to have been terminated as a direct action of creditors. This is less than expected and suggests that the majority have been liquidated voluntarily prior to explicit creditor actions.

Some particularly interesting results were revealed concerning the disposition and subsequent use of the assets of these farms that ceased operations due to financial difficulties. A significant majority (63.4%)

are being operated by another family farm and only a small minority (5.6%) have been taken over by a corporate operation. Most surprising was the finding that the single most important means of disposition of the land in these former operations was sale or rental to new family farmers (27.5%). This implies that there are, indeed, new entrants into farming and that entry may be facilitated by the termination of other farming operations as a result of financial problems.

Second in importance was land being held by creditors (26.2%). The ultimate dispositon of this land is unknown, but undoubtably much will eventually be sold to new and existing farmers. Third in importance was land sale or rental to existing farmers (20%). Relatively small shares were transferred to outside investors (7.5%) or to nonfamily farm corporations (5%). Thus, while financial stress has clearly brought some non-family farm investment into farming, it does not appear to be driving farm assets rapidly out of the hands of farming families.

Finally, the size of failed farming operations is of keen interest. Nearly seven out of ten of these operations (69.6%) were in the mid-size commercial farm category of $40,000-$200,000 in annual sales. Only 21.5 percent were of smaller-than-commerical farm size and 8.9 percent large commercial operations. By contrast, more than 76 percent of all Ohio farms are in the smaller-than-commercial size category. The clear but not surprising implication is, farm reorganization as a result of financial stress is largely a phenomenon--and problem--of commercial family-sized farms.

Concluding Remarks

Termination of farming due to financial duress is an issue of broad general interest as well as a matter of considerable personal concern to those individuals and families affected directly. Relatively little has surfaced, however, regarding what has happened to the people who have left farming for financial reasons or to the farm assets left behind.

This exploratory research in Ohio provides some insights and suggests a number of potential implications or impacts for more detailed and broader-based investigations. To the extent that comparable data are available, the patterns of adjustment discovered in Ohio appear to be generally consistent with those reported elsewhere, particularly in Iowa. More comprehensive research is needed before firm conclusions and policy implications are drawn. Nonetheless, our preliminary findings help focus the issues.

In short, our results suggest that the adjustment problems in agriculture as a result of farm financial stress are largely concentrated among relatively young, larger scale, family-oriented, full-time, commercial farm operators. Based upon age, years farming, and level of education, most have skills that are oriented primarily toward farming, but have had reasonable success in finding nonfarm employment. Major disruptions to family life and physical relocations appear less frequently than expected, but still often enough to demand concern about implications for family members and local communities. And, while the transition is occurring predominantly among commercial family-oriented farms, it does not appear to be resulting in a rapid movement of farm assets into the hands of nonfamily farm corporations or outside investors. By like token, however, some consolidation of farm assets in the hands of surviving commercial farmers is also evident.

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OSU

Ohio Cooperative Extension Service
The Ohio State University

Agricultural Economics
and Rural Sociology
2120 Fyffe Road
Columbus, Ohio 43210-1099

Phone 614-422-7911

TO: County Agricultural Extension Agents

DATE: December 9, 1985

RE: Farm Transition Questionnaire

Agriculture has undergone significant changes in the past few years. Some of these changes have drastically altered the lives of many of Ohio's farmers and their families. The effects of the farm financial crisis on farm families and on the restructuring of farm businesses are still uncertain. To gain greater insight into these issues, we are conducting this exploratory study of the adjustments of displaced farm families and the disposition of their farming assets.

At this point, we have no good way to identify farmers who have left farming for financial reasons. However, we are confident that you know of a number in your county. Therefore, we are asking you to provide us with information on some of those, to give us a better idea of who has left farming, why, and what has become of them and their farms. Your responses, while perhaps are not a representative sample of all farmers who have quit farming for financial reasons, should help provide answers to some of the questions being raised about the impacts of the current severe financial stress in agriculture.

Please select five farms with which you are familiar, that have gone out of business in 1984 and 1985, and provide as much of the information requested on the questionnaire as possible for each. We will provide you with a summary of the responses that we receive.

We would appreciate your response by Monday, December 30. More detailed instructions follow. Your help is greatly appreciated.

Sincerely yours,

Stuart D. Frank

Stuart D. Frank
Graduate Research Associate

Dennis R. Henderson

Dennis R. Henderson
Extension Economist

DRH:kjw

Attachment

cc: District Supervisors
District Farm Management Specialists

Mike Sprott
Joe Havlicek

INSTRUCTIONS

The farm questionnaire is separated into three sections numbering 28 questions. Answer space is provided to the left of each question. For all questions not asking for a numerical answer, but have multiple choices, please answer these questions by writing the corresponding letter(s) and or number(s) for all responses that apply in the proper answer space. For questions with responses that do not apply or if you are unable to answer, please leave answer space blank.

For Section I (questions 1 and 2), please give the total number of farmers who have left farming and why. The first two questions (1 and 2) need only be answered once.

Sections II and III pertain to the five farm firms and their respective principal operators in your county that have exited farming for financial reasons. If you are not familiar with five such farms, limit your responses accordingly.

The questions in Section II (questions 3 to 13) are concerned with each of the principal operators for each farm entity. A principal operator is defined as the person(s) who has a major decision role in managing the farm business. For example, a father-son arrangement where the son is essentially a hired hand, only the father would be considered a principal operator. For a father-son partnership, however, both would be principal operators. Space is provided for up to three such persons for each farm.

Questions in Section III (questions 14 to 28) should be answered just for the farm business as one entity, regardless of the number of principal operators.

COUNTY:

OHIO COOPERATIVE EXTENSION SERVICE
AGRICULTURAL ECONOMICS & RURAL SOCIOLOGY

DECEMBER 1985

FARM TRANSITION QUESTIONNAIRE

I. 1. In your county, how many farmers have left farming since Jan. 1, 1984?

OPERATOR 1 | OPERATOR 2 | OPERATOR 3

2. The total number of farmers leaving for:
   a. financial reasons ____
   b. retirement ____
   c. health ____
   d. other ____

THIS RESPONSE IS FOR FARM NO. 1 2 3 4 5 (circle one)

II. 3. Farmer's age

4. Farmer's status:
   a. single
   b. married
   c. separated
   d. divorced
   e. widowed

5. Dependents.
   a. wife
   b. number of children at home:
      1) age 0-4
      2) age 5-9
      3) age 10-14
      4) age 15-19
      5) age 20+
   c. number of children at college
   d. number of parents or other relatives

6. Number of years in farming

7. The farmer was:
   a. full-time farmer, no off-farm job
   b. part-time farmer and part-time job off farm
   c. full-time job and part-time farmer

8. What is the current employment status of the farmer:
   a. working for another farmer
   b. working in agribusiness
   c. working in non-agribusiness
   d. self-employed
   e. unemployed
   f. other: ____________

9. Current employment status of farmer's spouse:
   a. in same job off the farm held before leaving farming
   b. not working now and did not work while farming
   c. not working now but did work while farming
   d. working now but did not work while farming
   e. other: ____________

10. What is the farmer's current residence status:
   a) same house as before leaving farming
   b) moved out of county but still in state
   c) moved out of state
   d) living with other relatives
   e) living with family
   f) separated from family
   g) lives in same community
   h) other: ____________

11. Has the farmer or his dependents since leaving farming:
   a. suffered any serious physical illness
   b. suffered any serious mental illness
   c. drug or alcohol abuse
   d. deceased
      1) natural causes
      2) suicide

12. What is the highest level of education the farmer has attained:
   a. high school or less
   b. post-secondary or more

13. What was the farmer's involvement with the county's extension service:
   a. active participant prior to and during financial difficulties
   b. active prior to financial difficulties; inactive thereafter
   c. became active when financial difficulties occurred
   d. no involvement

FARM OPERATION ONLY:

III. 14. Number of acres in the farm

15. Number of acres owned

16. Number of acres rented from another

17. Number of acres rented to another

___ 18. The farm operation's primary source(s) of income:
a. cash grain
b. beef cattle
c. hog
d. dairy
e. poultry
f. vegetable
g. fruit
h. other: _________

___ 19. Between 1976-1980 did the farm operation:
a. bring someone into the farm operation
b. invest heavily in machinery
c. buy additional land
d. rent additional land
e. expand livestock numbers and/or facilities

___ 20. Between 1981-1985 did the farm operation:
a. bring someone into the farm operation
b. invest heavily in machinery
c. buy additional land
d. rent additional land
e. expand livestock numbers and/or facilities

___ 21. What was the farm operation's method of exiting from farming:
a. sold out
b. partial liquidation
1) sold land
2) sold facilities
3) sold livestock
4) sold machinery
c. foreclosure by lender and assets repossessed
d. voluntary conveyance of assets to lender
e. filed for bankruptcy

___ 22. Disposition of farmland:
a. sold to existing family farm
b. sold to new farmer
c. sold to existing non-family corporation
d. sold to new non-family corporation
e. rented to existing family farm
f. rented to new farmer
g. rented to existing non-farmily corporation
h. rented to new non-family corporation
i. held or purchased by lender
j. sold to non-farm investor
k. non-farm use
m. idle
p. other: __________

23. Who is farming it now:
a. family farm
b. corporate farm
c. custom farmer
d. other: __________

___ 24. Disposition of farm facilities:
a. sold to existing family farm
b. sold to new farmer
c. sold to existing non-family corporation
d. sold to new non-family corporation
e. rented to existing family farm
f. rented to new farmer
g. rented to existing non-farmily corporation
h. rented to new non-family corporation
i. held or purchased by lender
j. sold to non-farm investor
k. non-farm use
m. idle
p. other: __________

___ 25. How many years had the farm been in the family?

26. How many generations had the farm been in the family?

27. In the last five years, please indicate the number of times the farm has experienced each of the following natural disasters:
a. drought ____
b. flood ____
c. hail ____
d. fire ____
e. disease ____
f. insect damage ____

___ 28. What was the farm's level of gross annual sales before leaving?
a. less than $40,000
b. $40,000 to $99,999
c. $100,000 to $199,999
d. $200,000 and over

FOR FURTHER INFO CONTACT STUART FRANK OR DENNIS HENDERSON AT (614) 422-3544.